

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 7087**

**BILL NUMBER:** HB 1297

**NOTE PREPARED:** Jan 18, 2015

**BILL AMENDED:**

**SUBJECT:** New Markets Tax Credit.

**FIRST AUTHOR:** Rep. Torr

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** The bill provides for an Indiana New Markets Tax Credit against state taxes for investments in qualified community development entities that is similar to the federal New Markets Tax Credit. It provides that the Indiana Economic Development Corporation (IEDC) may not approve more than \$80 M of Qualified Equity Investments (QEI) each state fiscal year. It requires the IEDC to submit an annual report on the Indiana New Markets Tax Credit to the Budget Committee.

**Effective Date:** January 1, 2015 (retroactive).

**Explanation of State Expenditures:** *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise tax forms, instructions, and computer programs. The DOR's current level of resources should be sufficient to implement the provisions of the bill.

*Indiana Economic Development Corporation (IEDC):* The IEDC will incur additional expenses to establish this program. The IEDC will be required to review applications, certify QEI, monitor investment projects, and submit an annual report to the State Budget Committee. The IEDC's current level of resources should be sufficient to implement the provisions of the bill.

**Explanation of State Revenues:** *Summary-* The Indiana New Markets Tax Credit is intended to attract private investments in economically distressed neighborhoods. The total credit equals 32% of the purchase price paid to the issuer of the QEI and is claimed over a six-year period. Each year, the taxpayer applies the appropriate percentage to the purchase price to determine the annual credit amount:

1. 0% for the first and second year

2. 8% for the third, fourth, fifth, and sixth year

The credit is effective beginning in CY 2015 and may be awarded for QEIs made during CY 2015 through CY 2023. The fiscal impact of credits awarded in CY 2015 will occur in FY 2018 due to the applicable percentage tiers. The estimated revenue loss in FY 2018 is approximately \$4.8 M with the estimated revenue loss totaling \$9.8 M in FY 2019 and \$14.6 M in FY 2020. The credit could reach the full revenue exposure of \$19.5 M per fiscal year in FY 2021. The IEDC may not certify any new QEI after CY 2023. However, taxpayers will be allowed to claim the scheduled credit amounts after CY 2023.

**Additional Information** - For a taxpayer to receive the credit, a community development entity must file an application with the IEDC. The community development entity must provide all the required information including the identifying information of the entity that will earn the credit. The credit can be used to offset tax liabilities from the Individual Adjusted Gross Income Tax, Corporate Adjusted Gross Income Tax, Financial Institutions Tax, or Insurance Premiums Tax. Revenue collected from those taxes is deposited in the state General Fund. The revenue to the state General Fund would be reduced by the amount of the credits. The credit is nonrefundable, but a taxpayer may carry forward any unused credit amounts.

The IEDC may not certify more than \$80 M QEI during any fiscal year.

The Center for Business and Economic Research (CBER) at Ball State University conducted a study on the effectiveness of the federal New Markets Tax Credit Program and how a state-level version of the federal credit affects overall levels of investment. The study found that states with their own version of the federal credit had higher levels of federal New Markets Tax Credit investments. The CBER study included a simulation of the potential impact of Indiana implementing a 39% state credit. The simulation suggests that the credit would attract an estimated \$433 M in investment over a seven-year period. That is an average of \$61 M in QEIs per year.

Assuming Indiana attracts a total of \$61 M per year in QEIs beginning in CY 2015, the first year the New Markets Job Growth Credit for those investments may be used to offset a tax liability is FY 2018. This is due to the applicable credit percentage tiers.

The taxpayer may not use the credit for the first two years following the qualifying investment. Then, the credit equals 8% of the purchase price paid to the issuer of the QEI for the next four years. So, the last year the credit could be claimed for an investment made in tax year 2015 would be tax year 2020, with the fiscal impact of that last year's credit occurring in FY 2021. If the IEDC did certify the maximum allowable QEI amount in each fiscal year of the program, the maximum annual state revenue loss would be \$26 M.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue; Indiana Economic Development Corporation.

**Local Agencies Affected:**

**Information Sources:** Hicks, Michael J. And Dagney Faulk. *The Effect of State-Level Add-On Legislation to Federal New Market Tax Credit Program*, February 2012; Internal Revenue Service, New Markets Tax

Credit, LMSB-04-0510-016, May 2010; Community Development Financial Institutions Fund, U.S. Department of the Treasury, New Markets Tax Credit Program, Retrieved October 29, 2014 from [http://www.cdfifund.gov/what we do/programs\\_id.asp?programID=5](http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=5); U.S. Department of the Treasury, *NMTC Qualified Equity Investment Report*, October 1, 2014; U.S. Department of the Treasury, *Notice of Allocation Availability, CY 2014 Allocation Round of the NMTC Program*, 4810-70-9, August 5, 2014. U.S. Department of the Treasury, CDFI Fund's NMTC Program Manager, 202.653.0421; Internal Revenue Service, Passthroughs and Special Industries, 202.317.4137.

**Fiscal Analyst:** Heath Holloway, 232-9867.